

Report of the auditor-general to Eastern Cape Provincial Legislature and the council on Blue Crane Route Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Blue Crane Route Local Municipality set out on pages xx to xx, which comprise the, statements of financial position as at 30 June 2025, statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Blue Crane Route Local Municipality as at 30 June 2025, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act (MFMA) and the Division of Revenue Act 24 of 2024 (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not correctly record impairment loss in line with *GRAP 21, impairment loss non-cash generating assets*. This was due to infrastructure and work-in-progress assets being incorrectly impaired with no impairment indicators. I was unable to determine the value of the misstatement of property, plant and equipment, as it was impracticable to do so. Consequently, I was unable to determine the full extent of understatement to the property, plant and equipment balance disclosed in the financial statement.
4. The municipality did not account for infrastructure assets in accordance with *GRAP 17, Property plant and equipment*. Infrastructure assets which were still in the process of being constructed were incorrectly transferred to completed infrastructure assets. This resulted in work-in-progress and infrastructure assets being misstated by R16.7 million.

Debt impairment

5. I was unable to obtain sufficient and appropriate audit evidence that the municipality assessed whether there is any objective evidence that receivables from exchange and non-exchange transactions are impaired and recognised a provision for debt impairment for long outstanding debtors, as required by *GRAP 104, Financial instruments*. I was unable to determine the value of the misstatement of debt impairment, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to the debt impairment amount presented in the financial statements.

Net cashflows from operating activities

6. The municipality did not correctly present the cash flows from operating activities in the cash flow statement as required by GRAP 2, Cash flow statement. This was due to multiple errors in the cash flow statement. I was unable to determine the value of the misstatement of cash flow statement, as it was impracticable to do so. As a result, reconciliation of net cash flows from operating activities was materially misstated. Consequently, I was unable to determine whether any adjustments were necessary to the cash flow disclosed in the financial statements.

Context for opinion

7. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
8. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
9. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.
11. I draw attention to note 44 to the financial statements, which has conditions identified that may cast significant doubt on the auditee's ability to continue as a going concern. As stated in note 44, these events or conditions, along with other matters as set forth in note 44, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.
13. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2024 financial year were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2025.
14. As disclosed in notes 5 and 6 to the financial statements, cumulative debt impairments of R28 million (2023-24: R15,8 million) and R118,6 million (2023-24: R127,2 million) were made to receivables from non-exchange and exchange transactions respectively.

15. As disclosed in note 22 of the financial statements, a material loss of 30% (2023-24: 12%) was incurred relating to electricity loss.
16. As disclosed in note 22 of the financial statements, a material loss of 30% (2023-24: 22%) was incurred relating to water loss.

Other matter

17. I draw attention to the matter below. My opinion is not modified in respect of this matter.
18. In terms of section 125(2) (e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the MFMA; and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
20. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

21. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
22. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, forms part of my auditor's report.

Report on the annual performance report
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23. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof; I must audit and report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

24. I selected the following material performance indicators related to Key Performance Area Basic Service Delivery presented in the annual performance report for the year ended 30 June 2025. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- % progress on the upgrading of Cookhouse water treatment works. (Phase 2).
- % progress on upgrading of Riverlane, lifting and Aeroville pumpstations (fencing for lifting and Riverlane pumpstation and desludging Riverlane)
- % of refurbishment of Clevedon Pump Station
- Number of water sample reports uploaded to IRIS (Blue and Green Drop)
- Number of LED bulbs retrofitted.
- % progress on the refurbishment of Glen Avon Street.
- % progress on the construction of the Nelsig Bridge.
- Km of gravel roads in BCRM paved.
- % progress on the installation of interim services for Marikana informal settlement. (Wheelie Bins, Skip bins, toilets, stand pipes, roads (Gravel roads), Electrification)
- No of identified new site (identified site locality and description).
- Number of greened and beautified spots.
- Number of illegal dumps cleared.
- Number of community safety forum initiatives conducted.
- Number of pounds fenced

25. I evaluated the reported performance information for the selected material performance indicators against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

26. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives.
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included.
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements.

- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents.
- the reported performance information is presented in the annual performance report in the prescribed manner.
- there is adequate supporting evidence for the achievements reported and measures taken to improve performance.

27. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

28. I did not identify any material findings on the reported performance information for the selected indicators.

Other matter

29. I draw attention to the matter below.

Achievement of planned targets

30. The annual performance report includes information on reported achievements against planned targets and provides measures to improve performance. This information should be considered in the context of the material findings on the reported performance information.

31. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx

Basic Service Delivery

<i>Targets achieved: 84.38%</i> <i>Budget spent: 102%</i>		
Key indicator not achieved	Planned target	Reported achievement
Number of LED bulbs retrofitted	607 LED bulb retrofitting.	Target Not Met - 0 LED bulb retrofitting
% progress on the refurbishment of Glen Avon Street	100% progress on str in the refurbishment of Glen Avon Street.	Target not met- 70% progress on site in the refurbishment of Glen Avon Street (layer works complete, paving not yet commenced and road marking)

% progress on the construction of the Nelsig Bridge	100% progress on the construction of Nelsig bridge.	Target not met-0% progress on the construction of Nelsing bridge.
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Report on compliance with legislation

32. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
33. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
34. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
35. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance report and annual report

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.
37. Material misstatements of non-current assets, current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

38. Reasonable steps were not taken to ensure that money owed by the municipality was always paid within 30 days, as required by section 65(2)(e) of the MFMA.
39. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R19,75 million, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on overdue accounts.
40. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R36,28 million, as disclosed in note 48, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. Majority of the irregular expenditure was caused by non-compliance with regulations of the Municipal Supply Chain Regulations.

Consequence management

- 41. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
- 42. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Procurement and contract management

- 43. Some of the goods and services within the prescribed transaction value for competitive bids were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).
- 44. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
- 45. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA.

Asset Management

- 46. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Human Resource management

- 47. I was unable to obtain sufficient appropriate audit evidence that senior managers signed performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.
- 48. I was unable to obtain sufficient appropriate audit evidence that financial interests were disclosed by the senior managers within 60 days from the date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.

Other information in the annual report

- 49. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected material indicators in the scoped-in key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.
- 50. My opinion on the financial statements and my reports on the audit of the annual performance report and compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
- 51. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected material indicators in the

scoped-in key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

52. I did not receive any other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract the audit report and re-issue an amended report as appropriate. However, if it is corrected, this will not be necessary.

Internal control deficiencies

53. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
54. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, and the material findings on compliance with legislation included in this report.
55. Leadership did not adequately exercise oversight over financial, performance reporting and compliance requirements, as the annual financial statements, annual report and compliance to laws and regulations were not adequately reviewed and monitored, which contributed to the material findings reported.
56. Management did not prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information this is evidenced by the number of material misstatements noted, some of which were subsequently corrected.
57. The audit action plan was not adequately monitored or executed, resulting in prior year external audit findings not being fully addressed and repeat findings occurring in the current period.

Auditor-General

East London

30 November 2025



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Compliance with legislation – selected legislative requirements¹

The selected legislative requirements are as follows: ²

#	Selected legislation and regulations	Consolidated firm level requirements
1	Municipal Finance Management Act 56 of 2003	Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a), 32(7), 33(1)(c)(ii), 53(1)(c)(ii), 53(1)(c)(iii)(bb), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 165(1), 165(2)(a), 165(2)(b)(ii), 165(2)(b)(iv), 165(2)(b)(v), 165(2)(b)(vii), 166(2)(b), 166(2)(a)(iv), 166(5), 170, 171(4)(a), 171(4)(b)
2	MFMA: Municipal budget and reporting regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
3	MFMA: Municipal Investment Regulations, 2005	Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
4	MFMA: Municipal Regulations on financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations: 5(4), 6(8)(a), 6(8)(b), 10(1)
5	MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(i), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
6	Construction Industry Development Board Act 38 of 2000	Section: 18(1)
7	Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
8	Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
9	Municipal Property Rates Act 6 of 2004	Section: 3(1)

10	Municipal Systems Act 32 of 2000	Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 45(a), 54A(1)(a), 56(1)(a), 57(2)(a), 57(4B), 57(6)(a), 57A, 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b) Parent municipality with ME: Sections: 93B(a), 93B(b) Parent municipality with shared control of ME: Section: 93C(a)(iv), 93C(a)(v)
11	MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
12	MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 14(1)(b)(iii), 14(1)(c)(ii), 14(4)(a)(i), 14(4)(a)(iii), 15(1)(a)(i), 15(1)(a)(ii)
13	MSA: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006	Regulations: 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3), 26(5), 27(4)(a)(i)
14	MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
15	MSA: Municipal Staff Regulations	Regulations: 7(1), 19, 31, 35(1)
16	MSA: Municipal Systems Regulations, 2001	Regulation: 43
17	Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
18	Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
19	Preferential Procurement Regulations, 2017	Regulations: 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 11(1), 11(2)
20	Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)

Explanatory information and examples

General

¹ Compliance with legislation

This section should be presented on one page, including the heading, introduction, and complete table of requirements.

² Table on selected legislative requirements

The table should include all legislation and regulations with the specific section / regulation references of ALL selected requirements (i.e. **scoped-in requirements** per the compliance working papers). This includes any entity-specific legislation that may have been scoped in.

List the sections in chronological order per legislation using the consolidated legislative requirements table per type of auditee (attached in the TU with the reporting templates) and the compliance working papers as source. **Ensure completeness and accuracy of the selected requirements from all the compliance themes.**

The format of presentation set out in the example below should be used in populating the table:

Legislation	Sections or regulations
[Act title and reference]	[References to all selected requirements from this act or regulation]
Preferential Procurement Regulations of 2022	Regulation/s Regulation/s